Kluwer Arbitration Blog

IP Arbitration in Brazil: What is the Current Scenario?

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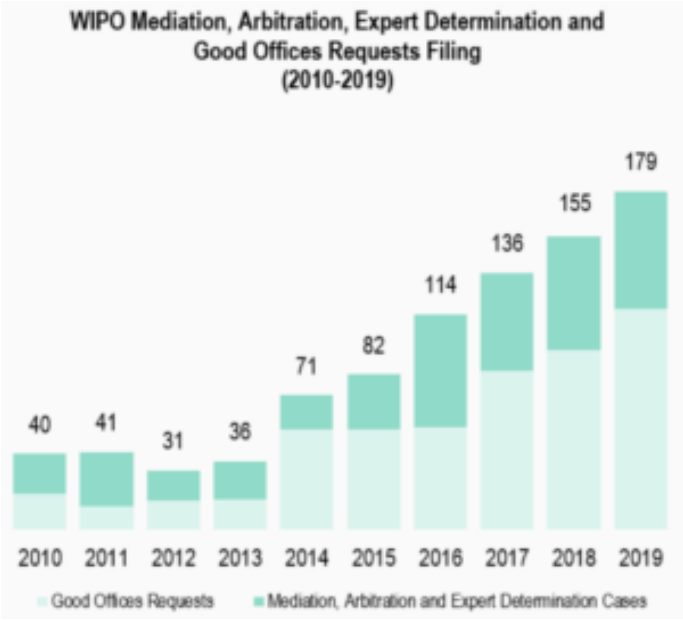
International background on IP arbitration

The past decade has witnessed a substantial growth in the use of arbitration to solve Intellectual Property ("IP") disputes. To the day, the WIPO Arbitration and Mediation Center ("WIPO Center") has administered over 650 arbitration, mediation and expert determination cases, a number which grows faster every year, as portrayed by the ascending curve below:



[Source: WIPO – World Intellectual Property Organization]

In the US, the American Arbitration Association has handled 110 IP arbitration cases only in 2016. Across the Pacific, by 2014 the Japan Intellectual Property Arbitration Center had managed some 130 mediation and arbitration proceedings.

Looking to the future, numbers brought by the 2016 International Dispute Resolution Survey conducted by the Queen Mary University of London, which focused specifically on Technology, Media and Telecommunications ("TMT") disputes, show that 82% of practitioners and in-house

counsels from all over the globe indicate that there will be an increase in the use of arbitration to solve TMT conflicts in the years to come. Likewise, 92% of the respondents trust that "international arbitration is well suited for TMT disputes".

Challenges to the development of IP arbitration in Brazil

In Brazil, however, the use of arbitration in IP conflicts is still sprouting. For instance, numbers released in 2014 by the CAM-CCBC – Center for Arbitration and Mediation of the Chamber of Commerce Brazil-Canada, a leading arbitral institution in Brazil and Latin America, showed that IP-related proceedings represented only 3% of the center's total caseload.

It is still unclear why the Brazilian IP community remains reluctant to arbitration. From our experience, we can safely state that it is not yet common for national players to insert arbitration clauses in IP contracts. The main reason for this appears to be that since both IP and arbitration are two specific legal fields, locally covered by two selected groups of practitioners, the Brazilian IP community has not yet realized the full advantages of using arbitration to solve their IP conflicts.

As an example, it is not rare for experienced Brazilian IP practitioners to believe that arbitration excludes from the parties the possibility to pursue pre-arbitral interim measures before state courts, even though such guarantee is expressly provided for in article 22-A of the Brazilian Arbitration Act. At the end of the day, it seems that most local IP practitioners are not yet acquainted enough with the particularities and advantages of arbitration, therefore preferring to keep their disputes before familiar local courts (a tendency that had already been noticed by Prof. David Caron when commenting on IP arbitration in the US in the early 2000s).

Another factor that may contribute to such outcome is that, in Brazil, some scholars have raised concerns as to the arbitrability of IP disputes. The issue would emerge in situations where the respondent to the arbitration challenges the validity of the claimant's registered IP right, therefore creating a scenario in which the arbitrators may have to invalidate an act undertaken by a state authority (the Brazilian Patent and Trademark Office – "BPTO").

According to Selma Lemes and José Rogério Cruz e Tucci, any decisions concerning the validity of IP rights would exceed an arbitral tribunal's powers. Other authors pose a different view, such as the one stressed by Trevor Cook and Alejandro I. Garcia: "an arbitral award is […] effective only *inter partes*, and has no effect in rem, so a determination that a registered IPR is invalid will only have effect as between the parties to the arbitration – the registered IPR in issue […] will remain in full force and effect on the register as against the rest of the world".[1)] This position is also shared by Daniel Levy, Rafael Atab de Araujo[2)] and Luiz Guilherme Loureiro.[3)] According to them, an arbitral tribunal would have powers to **incidentally** decide upon validity issues, rendering a decision with no *erga omnes* effects.

In this perspective, the Brazilian Industrial Property Law ("Brazilian IP Law") states in its articles 57 and 175 that patent and trademark invalidity actions must be filed before the federal courts, since the BPTO, a federal authority, must intervene on the case. Infringement actions, on the other hand, shall be filed before the state courts (with no participation of the BPTO), and, in such proceedings, it is common for the defendant to argue that the plaintiff's IP rights in issue is invalid. When this happens, the state judge shall incidentally decide upon the validity claim, since article

56, 1st paragraph of the Brazilian IP Law provides that "patent invalidity shall be raised as a defense at any time". Even though the aforementioned disposition only refers to patents, Brazilian courts have long established that it applies to trademarks as well (*see*, e.g., TJSP, Apelação n. 9219541-09.2005.8.26.0000, Des. Rel. Oscarlino Moeller, j. 01/01/2009).

In view of this, it is reasonable to conclude that since the Brazilian IP Law does not pose any barriers to the rendering of incidental decisions by state judges as to the validity of IP rights, the same rule shall apply to arbitrators, which are considered to be "judges in fact and in law", in accordance to article 18 of the Brazilian Arbitration Act. In other words, an arbitral tribunal applying Brazilian law could use the guarantee contained in article 56, 1st paragraph of the Brazilian IP Law to render a decision with *inter partes* effects as to the validity of an IP right in the course of the arbitration. Hence, it is our understanding that IP disputes are fully arbitrable under Brazilian law. There remains, however, one potential risk to the broad use of arbitration in disputes which address validity issues: the current understanding of the Brazilian Superior Court of Justice ("STJ") regarding article 56, 1st paragraph of the Brazilian IP Law.

Ever since 2012, the STJ has repeatedly ruled that article 56, 1st paragraph shall be disregarded, being state judges prevented from issuing incidental declarations as to the validity of IP rights in the course of infringement lawsuits (*see*, e.g., here). In such occasions, the invalidity claim shall be addressed in a parallel lawsuit before the federal courts, remaining the infringement action suspended pending a final decision on the validity issue (*see*, e.g., here). As a result, there could be a risk that arbitrators, like state judges, feel compelled to suspend the arbitration in case a validity issue is raised in the course of the proceeding, in order to prevent future challenges to the arbitral award. As to this moment, there is no case law addressing this precise matter.

In order to cast legal certainty over the arbitrability of IP controversies in Brazil, Nathalia Mazzonetto proposes an alteration in the text of the Brazilian IP Law, so as to encompass an express provision authorizing the use of arbitration in IP disputes, including those in which the validity of the respective IP right has been questioned.[4)] The author goes even further, suggesting that invalidity decisions rendered in the course of arbitral proceedings should produce *erga omnes* effects, an approach which has already been adopted in Belgium[5)] and Switzerland.[6)]

Conclusion

Arbitration is yet to be embraced by the Brazilian IP community. In our experience, this derives from the fact that local IP practitioners do not seem to be sufficiently acquainted with the full advantages that the use of arbitration could bring to their clients' dispute resolution policies.In an attempt to fill this gap, some important initiatives have already been put into action by the Brazilian IP community, namely the creation of (i) the Brazilian Arbitration Committee's Study Group on IP Arbitration and Mediation; and (ii) the CSD-ABPI – Centro de Solução de Disputas em Propriedade Intelectual, a dispute resolution center specialized in IP conflicts, administered by the Brazilian Intellectual Property Association.

Additionally, the concerns raised by some scholars as to the arbitrability of IP disputes (especially in light of the Superior Court of Justice's current understanding) may contribute to the reluctance

of referring those disputes to arbitration. It must be clear, however, that the arbitrability issue related to IP conflicts can only be raised when the validity of the underlying IP right is challenged. Even though such challenges are common in infringement actions before state courts, the same hardly ever occurs in arbitral proceedings, where disputes emerge out of contractual grounds, such as disagreements over (i) the payment of royalties, (ii) the definition of the licensed product, (iii) the obligations and limitations of the licensee as to the use of the licensed right, among others.

In one way or the other, it is time for the Brazilian legal community to open their eyes to alternatives that go beyond litigation when it comes to addressing IP conflicts. Arbitration has proven to be an extremely cost-efficient dispute resolution method, due to its agility, neutrality, specialty and confidentiality. As demonstrated by the abovementioned statistics, the use of arbitration to solve IP conflicts is a global trend, which Brazil would do well to follow.

References

?1 COOK, Trevor; GARCIA, Alejandro I.. *International Intellectual Property Arbitration*, Kluwer Law International, 2010, p. 7.

?2 ARAUJO, Rafael Atab. *A Arbitragem Comercial Internacional e a Propriedade Intelectual*: arbitrabilidade e questões práticas, no Brasil e no Direito Comparado. 2011. Dissertação (Mestrado em Direito Internacional e da Integração), Faculdade de Direito, Universidade do Estado do Rio de Janeiro, 2011, p. 100.

?3 LOUREIRO, Luiz Guilherme de A. Vieria. Arbitragem e Propriedade Industrial. *Revista de Direito Privado.* v. 5, a. 2, jan./mar. 2001, p. 154-155.

?4 MAZZONETTO, Nathalia. *Arbitragem e Propriedade Intelectual:* aspectos estratégicos e polêmicos. São Paulo: Saraiva, 2017. p. 257.

?5 Belgian Patent Law, article 51(1).

?6 Decision of December 15th, 1975 of the Federal Office of Intellectual Property.

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